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November 12, 1997

HAND DELIVERED

Mr. K. David Waddell
Executive Secretary
Tennessee Regulatory Authority
460 James Robertson Parkway
Nashville, Tennessee 37243-0505

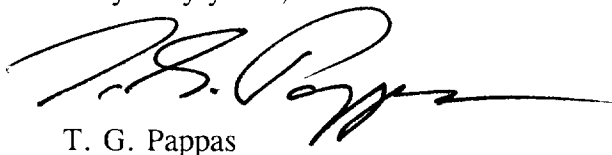
Re: Universal Service Generic Contested Case - Docket No. 97-00888

Dear Mr. Waddell:

On behalf of our client the Coalition of Small LECs and Cooperatives we are enclosing an original and thirteen copies of the testimony of Stephen E. Watkins testifying as to those issues that are to be presented by oral testimony. Also enclosed is an original and thirteen copies of the brief of the Coalition of Small LECs and Cooperatives as to those issues that by stipulation were to be briefed.

Thanking you for your attention in this matter and with kindest regards, I remain

Very truly yours,



T. G. Pappas

TGP/bfs:563867

cc: Dr. Austin Lyons
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Counsel of Record
Thomas J. Moorman, Esq.
Steven E. Watkins, Esq.
Coalition Members

**BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE**

IN RE:

UNIVERSAL SERVICE; GENERIC
CONTESTED CASE

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DOCKET NO. 97-00888

**Brief of the
Coalition of Small LECs and Cooperatives**

ARDMORE TELEPHONE COMPANY, BEN LOMAND RURAL TELEPHONE COOPERATIVE, INC., BLEDSON TELEPHONE COOPERATIVE, INC., CENTURY TELEPHONE OF ADAMSVILLE, INC., CENTURY TELEPHONE OF CLAIBORNE, INC., CENTURY TELEPHONE OF OOLTEWAH-COLLEGE DALE, INC., CONCORD TELEPHONE EXCHANGE, INC., CROCKETT TELEPHONE COMPANY, INC., DEKALB TELEPHONE COOPERATIVE, INC., HIGHLAND TELEPHONE COOPERATIVE, INC., HUMPHREYS COUNTY TELEPHONE COMPANY, LORETTO TELEPHONE COMPANY, INC., MILLINGTON TELEPHONE COMPANY, NORTH CENTRAL TELEPHONE COOPERATIVE, INC., PEOPLES TELEPHONE COMPANY, INC., TELlico TELEPHONE COMPANY, INC., TENNESSEE TELEPHONE COMPANY, TWIN LAKES TELEPHONE COOPERATIVE CORPORATION, UNITED TELEPHONE COMPANY, WEST KENTUCKY RURAL TELEPHONE COOPERATIVE, INC., WEST TENNESSEE TELEPHONE COMPANY, INC., AND YORKVILLE TELEPHONE COOPERATIVE, The Coalition of Small LECs and Cooperatives ("Coalition"),¹ by counsel, hereby files this brief in response to those issues designated in the October 31, 1997 memorandum of the Executive Secretary of the Tennessee Regulatory Authority ("TRA"). This brief is organized by the issues (and corresponding number) which the TRA and the parties to this proceeding have concluded do not require oral testimony at the upcoming hearings in this proceeding.²

2. Will all carriers be able to provide all elements of universal service?

For purposes of this response, the Coalition assumes that the question is related to whether those telecommunications providers expected to be designated as Eligible Telecommunications Carriers ("ETCs") for State universal service purposes will be able to

¹ All Coalition members are incumbent local exchange carriers ("LECs") operating within the State of Tennessee. Each Coalition member is considered a "rural telephone company" as that term is defined under the Telecommunications Act of 1996 ("1996 Act"), Pub. L. No. 104-104, 110 Stat. 56 (1996). See 47 U.S.C. § 153(37).

² The Coalition also is filing today its testimony regarding those issues contained within the TRA's October 31 memorandum that are the subject of cross-examination during the December hearings scheduled in this proceeding.

provide all of the service elements listed in the federal rules as a condition for designation as an ETC. 47 C.F.R. § 54.101(a). This response also assumes that the "elements" of the Tennessee's services will parallel the federal list of services.

As with the federal rules, some LECs in the state will not be capable of toll limitation services and in some very limited circumstances access to 911 or E911 service or perhaps single-party service, and will be in need of a grant of the general waiver allowance prescribed by the Federal Communications Commission ("FCC") for the reasons stated below. 47 C.F.R. § 54.101(c). For efficiency and consistency, the State should follow a very similar process.

With respect to toll limitation services, the Coalition submits that virtually no LEC in the nation is capable of providing this service as the FCC has defined it. The FCC defines toll limitation as "both toll blocking and toll control." 47 C.F.R. § 54.400(a)(4). Toll blocking is "a service provided by carriers that lets customers elect not to allow the completion of outgoing toll calls from their telecommunications channel." 47 C.F.R. § 54.400 (a)(4). Toll control is defined as "a service provided by carriers that allows consumers to specify a certain amount of toll usage that may be incurred on their telecommunications channel per month or per billing period." 47 C.F.R. § 54.400(a)(3).

The "toll control" requirement was adopted by the FCC in the final stage of the federal rulemaking without sufficient proposals and comment. Therefore, the capabilities of LECs has apparently been overestimated by the FCC. Toll control as the FCC defines it would require real-time capability to record and rate every call instantaneously as the caller attempts to make a toll call. This assumes that LECs would always be able to differentiate between toll calls and other types of calls. More importantly, "toll control" service presumes that LECs would somehow have a real-time capability to determine instantaneously the charge for a toll call at the initiation and during the call. The FCC has apparently presumed capabilities that currently do not exist. The Coalition fully expects the FCC to reevaluate this provision and to make changes on reconsideration.

However, most if not all of the Coalition members are prepared to offer or already offer toll blocking. They are not, however, prepared to offer toll control for the reasons stated above. Given that the matter of toll control is likely to receive reconsideration and that the TRA has been given the flexibility within the FCC's "additional time" rules to address this requirement and lack of toll control capability specifically, the TRA should grant a blanket waiver with respect to the provision of "toll control" services as one of the universal service elements.

This approach is consistent with the reasonable capabilities of LECs, the FCC's rules, and will ensure that interstate universal service high cost support will continue to be provided to carriers in the state that otherwise qualify as ETCs.

With respect to 911/E911, there may be a small number of instances where LECs will need the "additional time" waiver to complete access to 911 or E911 services. The requirement for ETCs to provide access to 911 and E911 only applies "to the extent the local government in an eligible carrier's service area has implemented 911 or enhanced 911 systems." 47 C.F.R. § 54.101(a)(5). In other words, any need for the additional time waiver would only arise where a local government has implemented 911/E911 but the LEC that serves that local area is not yet capable of providing 911/E911 access to callers.

The Coalition members have participated in the provision of the infrastructure necessary to facilitate 911 and E911 service in virtually every instance where a local government has initiated the actions under state statute to implement emergency services. This 911/E911 waiver situation is not likely to arise in many cases, and if this situation does arise, it should only be for a limited period of time.

Also, in a limited number of circumstances and most likely on a limited geographical basis, some LECs otherwise eligible for ETC designation may not be capable of single party service. Waivers for these limited instances should also be granted by the Commission for appropriate extraordinary situations.

The Coalition does not expect carriers other than ETCs operating in the state to be in a position to provide all elements of universal service nor is it likely, or desirable from a public interest standpoint, that multiple ETCs with redundant "networks of last resort" will or should be promoted. For non-ETC telecommunications carriers operating within the State, the TRA has ample State and federal authority to address public interest universal service objectives in Tennessee. The TRA should use these tools flexibly to place necessary requirements on all carriers that will foster universal service in the state. Beyond the explicit Universal Service support plan and designation of ETCs, there are other provisions that the TRA should consider applying for the purpose of maintaining universal service objectives.

From the federal standpoint, the TRA is provided with multiple tools to address universal service goals. For example, even though the 1996 Act in Section 253 promotes, in general, the removal of "barriers to entry," this section also provides specific authority for a state commission "to impose . . . requirements necessary to

preserve and advance universal service, protect the public safety and welfare, ensure the continued quality of telecommunications services, and safeguard the rights of consumers." See 47 U.S.C. § 253(a) and (b). Even though Section 253(a)'s general objective of removing barriers to entry may seem somewhat in conflict with the universal service objectives from time to time, Congress nevertheless gave the States specific authority to address universal service objectives in a straightforward manner.

Moreover, the TRA also has, by the very terms of the Universal Service provisions of the 1996 Act, "State Authority" to adopt its own regulations to preserve and advance universal service. 47 U.S.C. § 254(f). The Coalition submits that the TRA should pay close attention to the potential detrimental effects that non-ETC new entrants pursuing selective market entry are likely to have on the ability of designated ETCs to continue to provide universal service under stable and beneficial conditions. There is a great probability that the effect on revenues and costs of competing providers will make it more difficult for the current universal service plans to continue to promote the provision of universal services to the same degree of success achieved today. If new entry is not conditioned upon that entity's meeting certain universal service policies, cost recovery of networks provided by ETCs in their provision of universal service may be jeopardized and these LECs could find that capital-intensive network projects and new services' provision would need to be curtailed.

2.a. How should the TRA address exceptional circumstances?"

As discussed above, the FCC's rules regarding the designation of ETCs addresses waivers of the requirements to allow for additional time for network upgrades necessary for ETCs to provide the list of services. The Coalition does not believe that any extraordinary procedures need be established by the TRA beyond these waiver provisions or beyond the situations described above. The FCC approach should form an adequate model for State purposes. The ETC designation process that the TRA apparently envisions should be sufficient to address the exceptional circumstances that arise consistent with the Coalition's comments above.

3. What carriers/providers are eligible to receive support?

Subsequent to the Notice in this proceeding, the TRA has now issued an Order on November 3, 1997 that establishes the procedures for designation of ETCs for federal universal service purposes. The Coalition supports a similar, if not identical, designation and eligibility process and requirements for state purposes. All of the Coalition members will be filing a request for federal ETC designation in response to the Commission's November 3 Order, and the Coalition expects that all of its members will be designated as

ETCs. The TRA should also be aware of other considerations regarding whether more than one ETC is necessary or in the public interest. See 47 U.S.C. 214(e)(2). If consistent with public interest findings, any telecommunications carrier or provider that satisfies the conditions for ETC status and provides the list of services, should be considered for designation.

For rural telephone company areas, however, the TRA may designate a competitive provider as an additional ETC within a rural telephone company's service area only "[u]pon request and consistent with the public interest, convenience and necessity," and then only upon an affirmative finding by the Commission "that the designation is in the public interest." 47 U.S.C. § 214(e)(2). Accordingly, if a request is made for an additional ETC within the service area of a rural telephone company, the TRA will need to proceed with the fact-intensive inquiry required by Section 214(e) in order to ensure that the public interest will be served by such action.

3.a. What procedures will TRA use for designating ETC?

The TRA has now answered this question with the release of its November 3, 1997 Order regarding ETC designation. These procedures should be used for State purposes.

3.b. Should those companies not under TRA authority be designated as an ETC?

As a general matter for federal universal service purposes, the 1996 Act states that a State commission may "upon its own motion or upon request" designate a common carrier as an ETC. Accordingly, designation, by itself, involves only a finding that the carrier satisfies the requirements and that the designation would serve the public interest. Designation does not necessarily involve the use of authority over carriers. Therefore, the Coalition maintains that the TRA can determine interstate ETC designations for federal universal service support programs without concern over its scope of authority under state law.

Nevertheless, for the Coalition members, the TRA's question apparently is based in its concern regarding its authority over LECs organized as cooperatives as well as other carriers over which TRA does not exercise full regulatory authority. The Coalition members organized as cooperatives have elected to participate fully in this proceeding in order that the benefits associated with the advancement and promotion of universal service is ensured for all areas and for all consumers in Tennessee. As telecommunications carriers, and as carriers owned and operated by their own subscribers, the cooperative members of the Coalition fully accept their responsibility for ensuring the preservation of universal

service in Tennessee, generally, and in their service areas, specifically. Therefore, the cooperative members of the Coalition are prepared to submit to the TRA's authority to the limited extent necessary for state universal service designation and participation in a state universal service plan, in return for the public interest benefits that will arise under an anticipated state universal service plan.

3.c. Should the TRA adopt the Federal advertising guidelines?

No specific guidelines were adopted by the FCC. Rather, under its rules, State commissions are able to establish guidelines that may be needed to govern "advertising the availability of services." Report and Order, CC Docket No. 96-45, released May 8, 1997 at para. 148. The FCC envisions that a State will monitor the "effectiveness of carriers' advertising" as a "corollary" to its obligation to designate ETCs. Id.

With these standards in mind, the Coalition does not believe that any additional requirement is necessary for incumbent LECs operating within the State. The Coalition members submit that, as current incumbent LECs, each utilizes standard customer notification and public notice procedures (e.g., directory information), that satisfy this requirement without further action. Moreover, the Coalition members currently provide customer notification and marketing of their incumbent LECs' services consistent with the intended scope of the advertising requirement.

3.d. Should the TRA adopt the Federal facilities requirements?

The federal rules state that an ETC should provide the services supported by the federal universal service support mechanisms "either using its own facilities or a combination of its own facilities and resale of another carrier's services (including the services offered by another eligible telecommunications carrier). . . ." 47 C.F.R. § 54.201(d)(1). While the FCC has adopted this rule, the TRA should not allow ETC's designated subsequent to the first ETC carrier designation to use resold services in a manner that will allow cream skimming of universal service cost recovery support. While a carrier may apparently satisfy the ETC conditional requirements using resold services, carriers are not to receive support for resold services. However, if support to carriers operating on less than a full facilities basis is not structured carefully, these carriers may take advantage of selective market entry strategies that would undermine the universal service program.

For example, a new entrant could engage in cream skimming through a number of methods including: 1) reselling the original ETC's services provided to individual customers in the higher cost

areas of the service territory and/or to the lower volume customers that contribute less in service revenue to universal service cost recovery; 2) using these resold services at the averaged prices of the original ETC provider; 3) providing its own facilities to the lower cost areas or to the higher volume customers; and/or 4) receiving the same average level universal service support per customer as the original ETC receives. Under these most probable market entry conditions, the new ETC would be unfairly enriched by providing service to the most lucrative but would receive the average level of support. This provision remains as a flaw in the federal plan which the TRA should avoid. There should be a high hurdle that a new entrant should overcome, both in terms of ubiquitous service using facilities and pricing that parallels the requirements placed on the original ETC.

3.e. Must a carrier participate in this proceeding to be eligible for designation as ETC?

Not necessarily. However, the TRA should be certain that carriers ultimately designated as ETCs for state purposes are truly capable of serving, and prepared to serve, the universal service objectives developed by the TRA. Moreover, consistent with the comments provided above, the TRA should be careful not to promote multiple ETC participation in a manner that will be counterproductive to the promotion of universal service goals or will promote a plan that is detrimental to users. Plans that would not discourage, or perhaps could encourage, selective market provision of services by new entrants in areas that exhibit difficult universal service characteristics should be avoided in a direct and effective manner. For example, the TRA should particularly be sensitive to areas with higher per-unit costs and lower per-customer volume of use and under conditions where a new entrant could exploit universal service support or adversely affect the ability of the original ETC to continue to provide quality and advanced services at reasonable and comparable prices.

3.f. What procedure is necessary to ensure that rural carriers satisfy notice of status requirement?

The conditions under which a carrier is defined as a "rural telephone company" under the 1996 Act are very straightforward and simple to verify. The Coalition is aware that, on November 3, 1997, the TRA has issued an "Order Establishing Procedures for Self-Certification of Rural Companies." The Coalition submits that the procedures included in this decision (i.e., filing a copy of the FCC certification with the TRA, including any change in status) are reasonable.

4. Define carrier of last resort designation.

- a. Is this term still relevant?**
- b. Is so, how do we designate?**
- c. Can a carrier of last resort withdraw service and if so how?**

The Coalition sees no practical difference between the definition and the public policy issues that led to the definition of a "carrier of last resort" and the new term and concept of ETC. Of course, carrier of last resort connotes only one "last resort" carrier while ETC is a concept that can potentially accommodate multiple carriers. However, as already explained above, the 1996 Act requires specific public interest findings that designation of more than one ETC in a rural area is in the public interest prior to the designation of an additional ETC in such area. Moreover, as also explained above, multiple ETCs in rural areas can cause detrimental effects that are counter-productive to universal service and should be avoided. Therefore, with these conditions in mind, the concepts of an "ETC" and of a "carrier of last resort" are effectively similar. In any event, each area of the state should have an ETC designated which will satisfy the requirement for a carrier of last resort.

With respect to withdrawal from designation as an ETC, the Coalition notes that the FCC has established federal rules to govern this process for interstate universal service ETC purposes. See 47 C.F.R. § 54.205. These same procedures, when necessary, should be used for intrastate purposes as well. The Coalition believes that for rural telephone companies, if the potential detrimental effects of new entrants described above are avoided by effective anti-cream skimming provisions, there is unlikely to be cases where a small rural company will want or need to withdraw from either the ETC or carrier of last resort designation. The most likely cause for a need to relinquish designation by a rural carrier would be treatment of a new entrant under rules that lead to inequitable requirements on the original ETC or inadequate compensation for the provision of universal services.

In any event, adopting the FCC's approach for intrastate purposes is appropriate. As long as there are provisions in place to ensure that another ETC is present prior to permitting the existing ETC to relinquish its responsibility, this approach is both entirely consistent with the federal approach and would appear to address the necessary public interest that underlies the TRA's carrier of last resort provisions.

6. What carriers/providers must provide support under a Tennessee universal service system?

All carriers that provide intrastate telecommunications services to end users in the State should be responsible for funding the state Universal Service Fund ("USF").

6.a. Define telecommunications carrier. Is the TRA required to use the Federal definition?

The 1996 Act and the FCC's rules provide a definition for a "telecommunications carrier." See 47 U.S.C. 153(44). The Coalition believes that there may be substantial benefits in conforming many of the structure and administrative details of a State universal service program to those of the federal program. The federal definition of telecommunications carrier is both broad and potentially flexible as technology and services evolve. Accordingly, the benefits of conforming to the same definition would seem to outweigh any possible benefits to be derived from deviating from the definition.

6.b. Does state or Federal law require contributions or participation from carriers not under TRA authority?

The 1996 Act provides that "[e]very telecommunications carrier that provides intrastate telecommunications services shall contribute, on an equitable and nondiscriminatory basis, in a manner determined by the State to the preservation and advancement of universal service in that State." 47 U.S.C. § 254(f). The Coalition maintains that if the State develops mechanisms "to preserve and advance universal service" (which the Coalition supports), state programs will require contributions from telecommunications carriers to assure their success. As noted in the Coalition's testimony being filed today, the FCC has tentatively decided to place 75 percent or more of the responsibility to fund universal service objectives upon the States. Recognizing both the benefits of developing a successful state universal service program and the potential cost recovery funding responsibility that any state may face, the TRA should move forward with the development of funding responsibilities consistent with the direction provided in the 1996 Act.

Also, for the record here, the Coalition supports the use of end user retail revenues as the most efficient basis for assessment of funding responsibilities.

10. How should the TRA determine the basis for support for "low income consumers"?

- a. Should the TRA change its existing Lifeline program?**
- b. What standards and procedures should be adopted to address waiver requirements to the no-disconnect rule?**
- c. What funding mechanism should be adopted to fund Lifeline and Linkup?**

The Coalition members do not see any value in denying the full benefit of federal matching revenue support to qualifying Lifeline customers served by LECs in the State. Therefore, the TRA should move in an orderly fashion to modify the existing Lifeline program to maximize its benefits consistent with the support available from federal sources. Any changes should give carriers sufficient time to understand and plan for the necessary administrative procedures.

Regarding the "no-disconnect" waiver requirements under the FCC's rules, the Coalition submits that the FCC approach to the requirements for waiver appear reasonable. To the extent that there are other approaches that are superior to those of the FCC, this proceeding should serve to identify those proposals for further comment.

The funding for the State portion of Lifeline support should be derived from either the state USF or from general state revenues. A new state USF would present the most convenient and fair method to fund state Lifeline responsibilities. This method would distribute cost recovery across all users in the State and would avoid recovery and funding from individual LEC internal sources. Internal funding (i.e., a LEC must recover its own Lifeline discounts from its other customers) by individual LECs may result in an unfair burden on the non-Lifeline customers of specific LECs as the rates these customers are charged reflect a greater relative recovery responsibility. Funding across all telecommunications carriers' retail revenues, as contemplated through a state USF, will result in recovery across a wider revenue base.

11. What support in addition to the Federal support already adopted by the TRA should be provided to schools and libraries?

- a. The TRA should state specifically what discounts are available in Tennessee and at what levels.**
- b. How does the TRA address pre-discount price complaints?**

The need for State support to the schools and libraries will depend on the effectiveness of the federal plan. The federal plan will only distribute a specific capped amount of dollar support.

Based on a "first come, first served" approach, all that request school and library support may not receive it. Accordingly, there may still be a funding need in the state if the federal dollars are exhausted in any single year.

To the extent that current discounts in Tennessee are for services available to the public, these current discounted services are eligible for funding through the federal USF. Therefore, the existing discount program participants should apply for the federal recovery when the program becomes active. Any other enhancements to the schools and libraries program should await an examination of the effectiveness of current plans to be enacted in the coming months. The TRA should reevaluate the need for additional discounts once the effectiveness of already existing program is determined.

The Coalition does not expect a substantial level of disputes to arise over what the publicly available corresponding price should be. The Coalition maintains that it would not be productive to develop extensive policy concerning this issue without an indication that a problem really exists. However, should a dispute arise, the TRA should utilize already available complaint processes to resolve the dispute.

12. What support should be provided to health care providers?

- a. Should the TRA provide support in addition to that provided for by the Act and the FCC?**
- b. If so, who should pay for it and how?**

During the period in which the TRA will be examining universal service programs to be implemented in the State, the details of the federal universal service health care program will become more apparent. The need for a state plan will, as with other provisions, depend on the extent of available federal funding and the effectiveness of the federal universal service plan. Therefore, the TRA should await any determination of the extent of a state health care universal service program and the development of detailed administrative rules for health care universal service programs until the administrator of the federal health care universal service program has developed its procedures.

The Coalition will provide more input into these issues as the extent and nature of the federal health care program develops.

13. How should the TRA monitor provision of supported service to determine if support is being used as intended until competition develops.

- a. Does the TRA need cost allocation rules or accounting safeguards to determine that services supported do not bear more than a reasonable share of joint and common cost or otherwise unnecessarily subsidize a service?**

Because the cost recovery aspect of the universal service plan is designed to support the cost of services and facilities provided by carriers in their provision of universal service, and because carriers must actually provide these services and incur the cost of providing these services to be eligible to receive support from the plan, the disbursements will provide recovery of costs already incurred. Accordingly, the TRA only needs to monitor whether the LECs continue to provide the list of services supported by the universal service plan as well as monitor overall quality of service. Moreover, the Coalition notes that a large number of other rules that address the allocation of costs between regulated activities and non-regulated activities already exist. The FCC has already concluded that these mechanisms are sufficient to address the concerns apparently reflected in the TRA's questions above, and the Coalition submits that the TRA should adopt the same conclusions.

14. Are any changes in state laws or rules needed?

- a. Is there a conflict between the federal statute provision that universal service support should be explicit and the Tennessee statute requirement?**
- b. How does the TRA reconcile state universal service statute with federal statute on "sufficient" universal service funding?**
- c. Will rules have to be changed to allow various regulatory schemes to provide for recovery of any universal service contributions?**
- d. Will rules have to be changed to allow transition for carriers operating under various regulatory schemes?**

It is not entirely evident at this point what the exact nature of rule changes and additions may be in order to implement policy determined in this proceeding in furtherance of universal service goals in Tennessee. The Coalition also believes that the Tennessee Code is substantially compatible with the federal approach. As demonstrated in its testimony filed today in this proceeding, the Tennessee definition of basic local exchange telephone service is entirely complementary to and consistent with the list of services identified by the FCC for federal universal service purposes. Accordingly, since the services that must be provided are the very

focus of this proceeding, the Commission should conclude and order, in a manner consistent with Tennessee law, that the FCC's list of services are those that will be used for purposes of defining universal service on an intrastate basis. Because the Tennessee code provides the TRA with this flexibility, no additional rules are necessary. See Tenn. Code Ann. § 65-5-208(a) (Provides a list of specific services to be included within the definition of "basic local exchange service" as well as "other services required by state or federal statute").

Accordingly, the Coalition does not believe at this time that there are any needed changes to the TRA rules or state laws to move forward with plans and this proceeding. As this proceeding continues, however, the resolution of issues may ultimately require some changes in the TRA's rules or state law. If such a requirement arises, the drafting of any proposed changes should be undertaken based on the specific issue requiring action. The Coalition does not have any comment on the treatment of carriers operating under other forms of regulation.

The "sufficiency" requirement of the federal statute in application should be viewed as a results-dependent test. A universal service support program that achieves the necessary objectives is sufficient; in contrast, one that does not fully address the objectives or does not yield the anticipated results cannot be deemed sufficient. The Coalition does not believe that Congress expected the sufficiency criterion to be one of an absolute quantitative evaluation. Instead, the TRA should view sufficiency with respect to whether the goals are achieved.

15. Should the access charge reform issues be incorporated into the schedule addressing Phase II of the universal service proceeding?

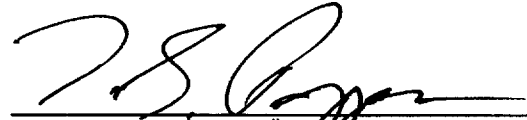
Taken together, the list of issues in this and the access charge restructuring proceeding is comprehensive; the interdependency among these issues substantial; and in some instances the time to resolve the issues may be short. The outcome of one proceeding directly affects the other. The Coalition fully expects that the decisions in the access charge restructuring proceeding will likely have a direct impact on the ability of LECs to maintain reasonable, affordable, and comparable rates -- a paramount goal of universal service. Because the impacts from these proceedings on LECs primarily involve cost allocation and cost recovery issues, and changes in cost recovery in one proceeding affects another, the TRA should strive to coordinate the results. The Coalition recognizes the administrative constraints on the TRA and the industry and the need to proceed in an organized fashion to review the policy matters. Therefore, whether the issues are combined or coordinated is merely a procedural matter.

In any event, the TRA should assure that the impact of one proceeding is considered in the other.

Respectfully submitted,

**THE COALITION
OF SMALL LECS AND COOPERATIVES**


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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been mailed,
U. S. mail, postage prepaid, to the following persons, this the 12 day of November, 1997.

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T. G. Pappas

BEFORE THE
TENNESSEE REGULATORY AUTHORITY
NASHVILLE, TENNESSEE

IN RE:

UNIVERSAL SERVICE; GENERIC
CONTESTED CASE

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DOCKET NO. 97-00888

Testimony of

Steven E. Watkins

on behalf of

Ardmore Telephone Company
Ben Lomand Rural Telephone Cooperative, Inc.
Bledsoe Telephone Cooperative, Inc.
Century Telephone of Adamsville, Inc.
Century Telephone of Claiborne, Inc.
Century Telephone of Ooltewah-Collegedale, Inc.
Concord Telephone Exchange, Inc.
Crockett Telephone Company, Inc.
DeKalb Telephone Cooperative, Inc.
Highland Telephone Cooperative, Inc.
Humphreys County Telephone Company
Loretto Telephone Company, Inc.
Millington Telephone Company
North Central Telephone Cooperative, Inc.
Peoples Telephone Company, Inc.
Tellico Telephone Company, Inc.
Tennessee Telephone Company
Twin Lakes Telephone Cooperative Corporation
United Telephone Company
West Kentucky Rural Telephone Cooperative, Inc.
West Tennessee Telephone Company, Inc.
Yorkville Telephone Cooperative

"The Coalition of Small LECs and Cooperatives"

November 12, 1997

1 Q: Please state your name and business address.

2
3 A: My name is Steven Watkins. My business address is 2120 L
4 Street, N.W., Suite 520, Washington, D.C., 20037.

5
6 Q: What is your current position?

7
8 A: I am Principal, Management Consulting and partner in the firm
9 of Kraskin & Lesse, LLP, which provides legal and consulting
10 services to telecommunications companies.

11
12 Q: What are your duties and responsibilities at Kraskin & Lesse,
13 LLP?

14
15 A: I provide telecommunications management consulting services
16 and regulatory assistance to smaller local exchange carriers
17 ("LECs") and other smaller telecommunications firms generally
18 providing telecommunications services in more rural areas. My
19 work involves assisting client LECs in their analysis of
20 regulatory requirements and industry matters requiring
21 specialty expertise; negotiating, arranging and administering
22 connecting carrier arrangements; and more recently assisting
23 clients in complying with the rules and regulations arising
24 from the passage of the Telecommunications Act of 1996 ("1996
25 Act"). On behalf of over one hundred other smaller
26 independent LECs, I am involved in regulatory proceedings in
27 several other states examining a large number of issues with
28 respect to the manner in which the 1996 Act should be
29 implemented in those states. I have instructed smaller,
30 independents companies on implementation of the 1996 Act
31 including universal service mechanisms, interconnection
32 issues, LEC-wireless carrier interconnection and cost
33 recovery. I also have negotiated interconnection arrangements
34 on behalf of smaller LECs.

35
36 Q: Have you prepared and attached further information regarding
37 your background and work experience?

38
39 A: Yes, this information is included in Attachment A following my
40 testimony.

41
42 Q: On whose behalf are you testifying?

43
44 A: I am testifying on behalf of the Coalition of Small LECs and
45 Cooperatives ("Coalition"). The members of the Coalition are
46 Ardmore Telephone Company, Ben Lomand Rural Telephone
47 Cooperative, Inc., Bledsoe Telephone Cooperative, Inc.,
48 Century Telephone of Adamsville, Inc., Century Telephone of
49 Claiborne, Inc., Century Telephone of Ooltewah-Collegedale,
50 Inc., Concord Telephone Exchange, Inc., Crockett Telephone

1 Company, Inc., Dekalb Telephone Cooperative, Inc., Highland
2 Telephone Cooperative, Inc., Humphreys County Telephone
3 Company, Loretto Telephone Company, Inc., Millington Telephone
4 Company, North Central Telephone Cooperative, Inc., Peoples
5 Telephone Company, Inc., Tellico Telephone Company, Inc.,
6 Tennessee Telephone Company, Twin Lakes Telephone Cooperative
7 Corporation, United Telephone Company, West Kentucky Rural
8 Telephone Cooperative, Inc., West Tennessee Telephone Company,
9 Inc., and Yorkville Telephone Cooperative. Each member of the
10 Coalition is a "rural telephone company" under the 1996 Act.
11 Each member also is an incumbent LEC operating within the
12 State of Tennessee.
13

14 **Q: What is the purpose of your testimony?**

15
16 **A:** The purpose of my testimony is provide policy analysis and
17 conclusions with respect to the state universal service issues
18 and other related matters under review in this proceeding and
19 with respect to the potential effects of such proposals on
20 Coalition members.
21

22 **Q: How have you organized your testimony?**

23
24 **A:** I have organized my testimony using the list of issues that
25 were included in the October 31, 1997 memorandum from Mr.
26 Waddell, Executive Secretary of the Tennessee Regulatory
27 Authority ("TRA"). I have used the same numbering of the
28 issues that are required for oral testimony as that used in
29 Mr. Waddell's memorandum.
30

31 **Q1: Define and determine what services are to be supported by a**
32 **Tennessee universal service support system?**
33

34 **a. Do we use state or Federal defined services?**
35

36 **A:** As discussed herein, the Coalition believes that it would be
37 appropriate to use the federally-defined services for purposes
38 of establishing the state Universal Service Fund ("USF"). The
39 definition of federal services that will be supported by the
40 cost recovery mechanisms established through the federal
41 universal service mechanism are not inconsistent with, and are
42 complementary to, those services previously established by the
43 Tennessee legislature as "basic local exchange telephone
44 service".
45

46 The FCC has established nine services to be supported by the
47 federal universal service mechanism. These services are: (1)
48 voice grade access to the public switched network; (2) access
49 to free of charge "local usage" defined as an amount of
50 minutes of use of exchange service; (3) dual tone multi-

1 frequency signaling or its functional equivalent; (4) single-
2 party service or its functional equivalent; (5) access to
3 emergency services; (6) access to operator services; (7)
4 access to interexchange service; (8) access to directory
5 assistance; and (9) toll limitation services for qualifying
6 low-income consumers.
7

8 The Tennessee law defines "basic local exchange telephone
9 service" as "an access line, dial tone, touch-tone and usage
10 provided to the premises for the provision of two way switched
11 voice or data transmission over voice grade facilities of
12 residential customers or business customers within a local
13 calling area, Lifeline, Link-Up Tennessee, 911 Emergency
14 Services and educational discounts existing on the effective
15 date of this act or other services required by state or
16 federal statute."
17

18 A simple comparison of the two definitions demonstrates that
19 the Tennessee definition of "basic local exchange telephone
20 service" is entirely consistent with items 1, 2, 3, 4, 5 and
21 9 included within the federal definition. As a result of
22 these similarities, it appears reasonable to conclude that
23 both the Tennessee legislature and Congress intended to
24 advance substantially the same policies of ensuring access to
25 those basic telephone services necessary to preserve and
26 advance universal service. Moreover, a lay person's plain
27 english reading of the last clause of the Tennessee
28 definition, i.e., "or other services required by state or
29 federal statute," suggests that the Tennessee legislature
30 recognized that there may be variations between the federal
31 and state definitions of what services are part of "universal
32 service." As a result, if such variation occurred, the
33 definition of "basic local exchange telephone service" would
34 automatically be expanded to include those services that were
35 included within the federal definitions but were not included
36 within the State's list of services.
37

38 The Coalition believes it would be prudent, practical, and
39 efficient public policy to await finalization of various on-
40 going federal proceedings prior to considering refinements to
41 the definition of universal service for state purposes. These
42 federal proceedings include access charge restructure,
43 implementation of the new universal service directives
44 contained within the 1996 Act, implementation of the local
45 competition provisions of the 1996 Act, and separations
46 changes. As a result of these proceedings, almost every
47 aspect of the Coalition's interstate regulated operations are
48 under review. Moreover, decisions reached in these
49 proceedings may result in additional costs being shifted to

1 the state jurisdiction and/or the imposition of rate design
2 changes upon state services.
3

4 Further, the Coalition notes that the Federal Communications
5 Commission ("FCC") and the Federal-State Joint Board will be
6 reviewing the federal definition of universal service.
7 Accordingly, it would appear appropriate for the TRA to
8 consider any additional state requirements in response to this
9 federal review.

10
11 **b. Should we provide support in addition to Federal mandated**
12 **services?**
13

14 **A:** Yes. As explained above, the Coalition believes that the
15 federal list of services should be used by the TRA at this
16 time for purposes of establishing state universal service
17 funding requirements. Upon completion of its efforts to
18 establish cost models for nonrural LECs, the FCC has announced
19 its intent eventually to fund only twenty-five (25%) of the
20 universal service responsibility to support the cost of
21 providing its list of services, less a revenue benchmark.
22 Likewise, and as noted above, the Coalition also anticipates
23 that, arising from separations changes and other rule changes,
24 there is real likelihood that additional costs will be shifted
25 to the intrastate jurisdiction; these additional intrastate
26 costs will need to be recovered. Moreover, the Coalition
27 anticipates that telecommunications infrastructure will be
28 deployed and maintained in rural areas of Tennessee (e.g.,
29 "FYI Master Technology Deployment Plan") in order to ensure
30 the availability of services comparable to those in urban
31 areas, thereby avoiding a situation of "haves" and "have
32 nots."
33

34 Accordingly, the Coalition submits that the TRA should move
35 forward in establishing a complementary state USF to ensure
36 the availability of an appropriate cost recovery mechanism to
37 the Coalition members as they meet the service and
38 infrastructure needs of the consumers within the rural areas
39 of Tennessee. From a practical and policy perspective, it
40 would be entirely appropriate for the TRA to establish the
41 state USF now in order to foster the advancement of universal
42 service goals in Tennessee and to gain valuable and early
43 experience in the administration of such a fund.
44

45 **c. What are the universal service core elements?**
46

47 **A:** Please see response to Q1, above.

1 **d. Does Tennessee Relay Center need to be addressed in this**
2 **proceeding?**

3
4 **A:** The Tennessee Relay Center ("TRC") does not need to be
5 addressed in this proceeding. However, in order to ensure
6 compliance with the universal service directives under the
7 1996 Act, the Coalition believes that the funding of the
8 Tennessee Relay Center ("TRC") should be addressed by the TRA.
9 The need to address the TRC and its compliance with the 1996
10 Act is clear. The TRC provides services to handicapped
11 consumers of telecommunications services within Tennessee.
12 The TRC permits this group of consumers to share in the
13 benefit of reasonably priced access to the telecommunications
14 network and services provided over that network, just as other
15 Tennessee consumers enjoy. Therefore, as an integral
16 component of universal service within Tennessee, the TRC
17 funding should be made part of the recovery mechanism
18 established in the state USF.

19
20 Just as with other aspects of the state USF, the TRC should be
21 operated and administered in a manner consistent with the
22 directives of the 1996 Act, and Section 254(f) specifically.
23 For example, the funding for the TRC should ensure that the
24 financial commitment to support these services is shared by
25 all telecommunications companies through the rates they charge
26 their respective end users. Likewise, at the time of the
27 creation of the state USF, the administration of the TRC could
28 then be transferred to the state USF administrator from
29 BellSouth.

30
31 **e. Do public interest payphones, if determined to be**
32 **necessary, need to be addressed in this proceeding?**

33
34 **A:** Public Interest Payphones ("PIPs") do not need to be addressed
35 in this proceeding, but the issues surrounding the
36 availability of PIPs do need to be addressed. For example, if
37 the TRA is to direct the placement of payphones in locations
38 that a competitive marketplace would deem unattractive, that
39 directive presumably will be based on a policy finding that it
40 is in the public interest to ensure the availability of access
41 to the telecommunications network at that specific location.
42 Accordingly, the cost recovery necessary to offer PIPs should
43 be included in the state USF.

1 Q5: Define service areas.

2
3 a. How does the TRA designate service areas for rural and
4 nonrural areas?
5

6 A: The Coalition assumes that the use of the term "service area"
7 for purposes of this question is intended to mean the area for
8 which an Eligible Telecommunications Carrier ("ETC"), as
9 defined under the 1996 Act, is eligible to receive
10 disbursement from a state USF. Accordingly, since all of the
11 Coalition members are "rural telephone companies" under the
12 1996 Act, the Coalition takes no position at this time on the
13 definition of a service area for nonrural LECs. For the
14 Coalition members, however, the term "service area" is its
15 FCC-defined "study area" until the States and the FCC
16 establish a different definition, in accordance with the 1996
17 Act and the FCC's rules and regulations.
18

19 b. Should ETCs be required to provide services throughout
20 its designated services area? If so, what services must
21 the ETC provide?
22

23 A: Consistent with requirements under Section 214(e) of the 1996
24 Act, ETCs are required to provide the list of federal services
25 throughout their designated service areas. These requirements
26 should apply for eligibility for disbursements under the state
27 USF as well.
28

29 This approach will ensure administrative ease by avoiding
30 conflict between federal and state eligibility and recovery
31 criteria. Moreover, this approach will ensure that all
32 customers within the State benefit from the TRA's universal
33 service goals and objectives since, presumably, all areas of
34 the State of Tennessee will be served by designated ETCs.
35

36 c. Should rural carriers be required to file proposed
37 service areas and can others comment on that filing?
38

39 A: As indicated above in response to Q5.a, a rural telephone
40 company's service area is its "study area" under the 1996 Act
41 and the FCC has established regulations regarding how that can
42 be changed. The FCC's procedures should be followed.
43 Accordingly, no service area filing need be required for a
44 rural telephone company.
45

46 If any party desires to alter this service area, it should
47 first be required to demonstrate why its designation as an ETC
48 for state USF purposes is in the public interest consistent
49 with the requirements of Section 214(e)(2) of the 1996 Act,
50 and then demonstrate why a definition other than the study

1 area of the incumbent rural telephone company would serve the
2 public interest. In reviewing both of these inquiries, but
3 especially the latter, the TRA can, using its contested case
4 procedures, ensure that the overall objectives of universal
5 service are not compromised through efforts to cream skim more
6 lucrative sections of the incumbent rural telephone company's
7 study area. Depending on the outcome of this type of
8 proceeding, compliance with the FCC's rules would then be
9 required.

10
11 **d. Determine if there are any unserved areas of Tennessee.**
12

13 A: The Coalition believes that, once the ETC designations are
14 completed, the TRA will be in a position to identify any area
15 not covered by such designations. If there is such area, the
16 TRA should then utilize the procedures established under
17 Section 241(e)(3) of the 1996 Act which requires the TRA to
18 determine under what reasonable circumstances an unserved area
19 should have service provided, and which common carrier or
20 carriers are best able to provide such service.
21

22 **Q7: How do we determine if rates are affordable?**
23

24 a. If current rates are set using existing statutes, are
25 rates considered affordable?
26

27 A: Yes. Subscribership levels, together with the availability of
28 low income service programs (i.e., Lifeline, Link-Up),
29 demonstrate that affordability, as a concept, is reasonably
30 achieved in Tennessee.
31

32 b. Must the TRA use Federal standards for affordability?
33

34 A: The Coalition notes that there are no specific federal
35 standards in place today. Rather, the FCC has presumed that
36 existing rates are affordable and will monitor "affordability"
37 through subscribership levels, working collegially with the
38 states on this issue. Through these efforts, the FCC expects
39 to monitor changes in subscribership and rates to reveal any
40 detrimental effects that may arise. The FCC also expects to
41 study differences in relative subscribership between states in
42 order to better understand what constitutes affordability.
43 Similar efforts and approaches should be adopted here by the
44 TRA.

1 c. If so, how should the TRA gather information, what
2 information should be gathered, and how should the TRA
3 apply the Federal standards in this case?
4

5 A: Please see response to Q7.b, above. In that the FCC
6 presumably will continue to gather subscribership data on a
7 nationwide basis, the Coalition does not believe that the TRA
8 needs to duplicate this effort. Rather, the Coalition
9 suggests that the TRA utilize this information, and only where
10 further disaggregation of information is necessary to ensure
11 that the TRA's universal service objectives and policies are
12 being met, should additional reporting be required.
13

14 In addition to the "affordability" standard, the TRA should
15 consider how to ensure that the standards of "reasonable
16 rates" and "comparable rates" between urban and rural areas
17 are established and preserved as the industry changes. These
18 standards may require a higher level of inquiry in order to
19 implement effectively the 1996 Act's universal service
20 directives regarding rural areas of Tennessee. In making this
21 inquiry, the TRA also will need to identify the appropriate
22 rate comparison to urban area service prices, and then
23 consider whether customers located in rural areas have
24 comparable services to those provided in urban areas (and to
25 higher volume customers) at rates that are reasonable,
26 affordable, and comparable to those charged in urban areas.
27

28 Q8: How does the TRA define implicit and explicit subsidy?
29

30 a. Define implicit and explicit subsidy?
31

32 A: First, please note that my use of the term "subsidy" is from
33 a rate design perspective and not cost recovery. Second, I
34 note that the term "subsidy" must be placed in the proper
35 context. There is no definitive method to determine precisely
36 whether one set of services "subsidize" other sets or to
37 determine the amount of subsidization. While parties in this
38 proceeding undoubtedly will provide a full array of economic
39 theories in an effort to identify what is or is not an
40 "explicit" or "implicit" "subsidy," this type of inquiry is
41 not necessary and could very well lead to the dismantling of
42 beneficial and desirable socio-economic rate designs that
43 ensure universal service.
44

45 Instead of focusing analytical attention to a theoretical
46 examination of subsidies, the TRA should place its emphasis on
47 the results of the overall universal service plan -- the
48 availability of reasonable, comparable and affordable rates.
49 The 1996 Act sets out a list of universal principles and
50 objectives which should guide all state and federal policy

1 makers in their efforts to redesign universal services in a
2 more competitive industry. As the realities of competitive
3 market principles place more pressures on rate designs that
4 have, in the past, been the tools to address reasonable and
5 affordable rates, the TRA will need to address shifting cost
6 recovery quickly so as not to potentially jeopardize the
7 universal service goals already achieved. If success is
8 achieved through this results-oriented test, then the implicit
9 and explicit subsidies have appropriately been addressed. A
10 theoretical and quantitative analysis of implicit and explicit
11 subsidies, with theoretical conclusions as to how and what
12 extent prices and rate designs should change, cannot ensure
13 the universal service objectives of the 1996 Act. These
14 objectives must be achieved in the context of real-world costs
15 and operations.

16
17 Historically, local rates have been based on the pursuit of
18 socio-economic objectives in order to ensure the availability
19 of reasonably priced basic access to the network for all
20 consumers. There was never any requirement to identify
21 exactly the interrelationships between these social and
22 economic policies and the costs of providing different classes
23 of services. In fact, most local rates were residually
24 derived in order to ensure the lowest price possible for basic
25 dial tone service. Accordingly, more costs will be placed
26 upon the local service category and the local rate payer as
27 these traditional rate design methods are altered. Without a
28 state USF to recover these additional costs (or at least a
29 portion of such costs assuming local rates are increased), the
30 current socially-desirable rate designs will end.

31
32 **b. How does the TRA determine implicit subsidies in current**
33 **rates?**

34
35 **A:** Please see response to Q8a, above.

36
37 **c. How does the TRA make implicit support explicit as**
38 **defined by the Act and the FCC?**

39
40 **A:** By creating a state USF to recover, on an on-going basis, the
41 difference between the actual costs (i.e., embedded costs) of
42 a Coalition member and the revenue generated by that Coalition
43 member charging "reasonable and comparable" rates as
44 determined by the TRA, the TRA can accomplish then universal
45 service requirements and objectives of the 1996 Act. The
46 result should be an explicit recovery through an adequate
47 state USF of costs that were previously recovered through the
48 company's other rates.

1 Q9: Preliminary cost modeling issues.

2
3 a. Should universal service cost studies be company-specific
4 or generic?
5

6 A: The Coalition believes only questions 9.b, 9.j, and 9.k need
7 be addressed in this phase of the proceeding. The remaining
8 sub-parts of Q9 involve cost study issues better resolved in
9 the context of reviewing cost studies. Further, the
10 Coalition's answers to the more specific cost model questions
11 are for the purposes of identifying the long-range issues that
12 the TRA will need to address for Tennessee's rural LECs, and,
13 quite possibly, all LECs within Tennessee.
14

15 Nevertheless, and as the TRA is aware, the Coalition members
16 are not subject to the so-called forward looking economic cost
17 model approach adopted by the FCC on the federal level.
18 Rather, the FCC will continue to permit rural telephone
19 companies such as the Coalition members to continue to use
20 their embedded costs for purposes of federal USF recovery
21 until at least the year 2001. The FCC also has concluded that
22 models or estimates of the so-called forward-looking economic
23 costs should ultimately be applied to rural LECs if and only
24 if validation that the results are accurate and lead to
25 sufficient and reliable high cost universal service support
26 levels consistent with the nation's universal service goals.
27 For this reason, the FCC has adopted a distinct schedule and
28 a more methodical approach, including the use of a rural task
29 force, for the development of models potentially to be applied
30 to rural LECs. Accordingly, the TRA should adopt a similar
31 approach here and the Coalition members should use their
32 embedded costs (or equivalent average schedule settlements)
33 for state USF purposes.
34

35 By adopting the approach outlined above, the TRA could gain
36 insight from the FCC's efforts in this area that may occur
37 through the FCC's rural task force. Accordingly, since no
38 model has focused on the small, rural LECs, the TRA would be
39 starting from scratch without the benefit of the efforts
40 envisioned by the FCC to address rural LECs such as the
41 Coalition member companies. Further, there remains the issue
42 of whether any model would lead to universal service support
43 mechanisms sufficient to serve universal service goals, would
44 allow the maintenance of comparable and reasonable basic
45 service rates, and would produce results that encourage
46 telecommunications plant investment in rural areas.
47

48 The accumulation of information and the analysis of potential
49 data associated with the development of so-called forward-
50 looking economic cost studies for the larger, non-rural LECs

1 alone is an enormous and speculative task. Therefore, the TRA
2 should not impose these burdens on the smaller LECS at this
3 time but should await the outcome of other analyses currently
4 underway within the Federal-State Joint Board process. By
5 adopting the approach suggested above, the Coalition members
6 would not be required to expend the considerable time and
7 resources to develop alternative cost studies that have never
8 been demonstrated to be applicable to rural LECS,
9 notwithstanding whether the overall assumptions of these
10 studies are reasonable.

11
12 Moreover, on-going industry efforts to develop cost models
13 have demonstrated that the probability of success in
14 developing an accurate model remains highly uncertain, even
15 with the assistance of the States. Unlike the rural Coalition
16 members, the nonrural LECS in Tennessee will soon confront an
17 earlier potential implementation date for a new costing
18 methodology pursuant to the FCC's universal service order from
19 earlier this year. The nonrural larger LECS throughout the
20 nation have previously demonstrated that they have the
21 resources available to meet the administrative burden
22 necessary to participate in contributing to the development
23 effort and to evaluate the results of proposed costing
24 methodologies and models applicable to them.

25
26 **b. What is the proper territorial scope of universal service**
27 **rates (e.g., statewide by carriers, by service area, or**
28 **by category of support)?**
29

30 **A:** As discussed above, the proper "universal service rates" will
31 be those that satisfy the principles and objectives of
32 universal services including reasonableness and comparability
33 between urban and rural areas.
34

35 **c. What is the proper level to which deaveraging should be**
36 **applied in the cost studies?**
37

38 **A:** Deaveraging for the purposes of examining the network costs of
39 carriers to provide a list of services defined as "universal"
40 will be necessary to avoid cream skinning by new entrants, and
41 to avoid efforts by such entrants to obtain support where
42 support is not needed. Deaveraging for support level purposes
43 should not, however, be confused with the area in which a
44 carrier receives support or the need to maintain reasonable
45 and comparable retail end user rates.

1 d. Should rural and non-rural study areas be combined or
2 separated in the cost studies?
3

4 A: Presumably, the term "rural" refers to the classification of
5 the telephone company under the 1996 Act. Accordingly, since
6 "rural" study areas are under a different costing methodology,
7 the study areas of rural telephone companies should be treated
8 separately from the study areas of non-rural telephone
9 companies.
10

11 e. Which network components are necessary to provide
12 services included in universal service?
13

14 A: The cost of building, maintaining, and operating a quality
15 local network necessary to provide the list of universal
16 services should be considered as the necessary components to
17 provide the services included within the definition of
18 universal service. Any attempt to minimize costs will either
19 lead to lower quality networks or failure to achieve universal
20 objectives by not ensuring the ability of the LECs to make all
21 network investment necessary to continue to provide the
22 required services.
23

24 f. Should universal service cost studies be based on cost
25 studies for permanent UNE prices?
26

27 A: It is assumed that the term "UNE" is an acronym for "Unbundled
28 Network Elements." As rural telephone companies, the
29 Coalition members are exempt from providing UNES under the
30 1996 Act. Accordingly, this question is not applicable to the
31 Coalition members.
32

33 In any event, the costing and pricing policies that have been
34 developed in arriving at UNE prices have been designed in some
35 cases to "extract" the economies of scale from an incumbent
36 LEC and to grant these economies to the new entrant. This has
37 been accomplished by applying theoretical incremental costing
38 techniques that lead to minimizing costs and understating
39 prices for UNES. If this same approach were to be applied for
40 universal service cost recovery purposes, universal service
41 objectives would be jeopardized and the benefits of universal
42 service minimized since the actual cost of providing the
43 network would not be included within the necessary
44 calculations and policy determinations that lead to the
45 development of the state USF. Cost recovery for universal
46 service purposes, based on cost determinations, need to be
47 sufficient to achieve the expected objectives of any universal
48 service plan.

1 g. Should cost be developed on a combined or intrastate
2 basis?
3

4 A: The cost of providing universal service as described above is
5 based on the cost of the network as a whole. To the extent
6 that the state USF's cost recovery is to be developed based on
7 the difference between the cost of providing universal
8 services and some "benchmark" level of expected revenues, the
9 cost should be developed on a combined basis. Once the total
10 cost recovery amount is known, then, under the FCC's current
11 view, the responsibility to recover that cost is allocated 25%
12 to the federal jurisdiction and 75% to the state jurisdiction.
13 Finally, to the extent this overall, combined cost approach is
14 not adequate to address the full universal service objectives
15 in Tennessee, the TRA can adopt "additional" measures.
16

17 h. Should state specific or federal factors be used in the
18 cost studies?
19

20 A: It would appear that the primary benefit of developing a
21 state-specific model would be to reflect state-specific
22 characteristics.
23

24 i. Is it possible to create a hybrid model from the
25 individually proposed models?
26

27 A: The models are not developed sufficiently to determine whether
28 an accurate "hybrid" is possible. Likewise, the individual
29 models are not developed sufficiently to determine their
30 ultimate usefulness.
31

32 j. Which revenues should be included in the revenue
33 benchmark?
34

35 A: The level of revenues generated by the services included
36 within the definition of universal service at rates that are
37 reasonable, comparable, and affordable.
38

39 k. What time period should be used to calculate the revenue
40 benchmark?
41

42 A: Any revenue benchmark should reflect accurately the level of
43 revenues that LECs currently receive according to the
44 reasonable, comparable, and affordable rate objectives.
45

46 Q: Does this end your testimony?
47

48 A: Yes.

SUMMARY OF WORK EXPERIENCE AND EDUCATION

Q: Would you please describe your work experience.

A: I have been a consultant with the combination consulting/law firm of Kraskin & Lesse, LLP since June, 1996. Kraskin & Lesse concentrates its practice in providing professional services to small telecommunications carriers that provide service to rural and small-town America. My work at Kraskin & Lesse has involved assisting smaller, rural, independent local exchange carriers ("LECs") in their analysis of a number of regulatory and industry issues, many of which have recently arisen with the passage of the Telecommunications Act of 1996. I am involved in regulatory proceedings in several states on behalf of small LECs. These proceedings are examining the manner in which the Act should be implemented in those states. My involvement specifically focuses on those provisions most affecting smaller LECs and those requiring distinct considerations from the point of view of smaller telephone companies.

I have over the last year and one-half instructed smaller, independent LECs on the specific details of the implementation of the Act including universal service mechanisms, interconnection, and cost recovery.

Q: What did you do prior to joining Kraskin & Lesse?

A: For 12 years, I held the position of Senior Industry Specialist with the Legal and Industry Division of the National Telephone Cooperative Association ("NTCA") in Washington, D.C.

Q: Please describe your responsibilities and work activities as NTCA's Senior Industry Specialist.

A: In that position, I represented approximately 500 small and rural local exchange carrier member companies on a wide array of regulatory, economic, and operational issues. My work involved research, analysis, formulation of policy, and expert advice to member companies on industry issues affecting small and rural telephone companies.

My association work involved extensive preparation of formal written pleadings in response to FCC rulemakings and other proceedings, weekly contributions to

association publications, representation of the membership on a large number of industry committees and task forces, and liaison with other telecom associations, regulators, other government agencies, and other industry members. I also attended, participated in and presented seminars and workshops to the membership and other industry groups too numerous to list here.

Q: For those who may not be familiar with NTCA, what is the purpose of that Association?

A: NTCA is a national trade association of small, locally-owned and operated rural telecommunications providers dedicated to improving the quality of life in rural communities through advanced telecommunications. The Association advocates the interests of the membership before legislative, regulatory, judicial, and other organizations and industry bodies.

Q: Did you work in the telecommunications industry prior to your staff position with NTCA?

A: Yes, I worked for over eight years with the consulting firm of John Staurulakis, Inc., located in Seabrook, Maryland.

Q: And what were your duties with this consulting firm?

A: I reached a senior level position supervising a cost separations group providing an array of management and analytical services to over 150 independent telecommunications clients. The firm was primarily involved in the preparation of jurisdictional cost studies, access rate development, access and exchange tariffs, traffic analysis, property records, regulatory research and educational seminars.

Q: What other experience do you have in the telecommunications industry?

A: For ten years, I served on the National Exchange Carrier Association's ("NECA") Industry Task Force charged with reviewing and making recommendations regarding the interstate average schedule cost settlements system. For almost as many years, I served in a similar role on NECA's Universal Service Fund ("USF") industry task force.

Q: What is your educational background?

A: I graduated from Western Maryland College in 1974 with a Bachelor of Arts degree in physics. As previously stated, I have also attended industry seminars too numerous to list on a myriad of industry subjects over the years.

Q: Have you previously participated in any regulatory proceedings?

A: I estimate that I have prepared formal written pleadings for submission to the Federal Communications Commission on behalf of NTCA member and Kraskin & Lesse client LECs in well over a hundred proceedings. I have also contributed written comments in several state proceedings on behalf of Kraskin & Lesse client LECs. Finally, I have testified before the Federal-State Joint Board examining jurisdictional separations changes.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been mailed,

U. S. mail, postage prepaid, to the following persons, this the 12th day of November, 1997.

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T. G. Pappas

District of Columbia, ss:

BEFORE ME, the undersigned authority, a Notary Public, duly commissioned and qualified in the District of Columbia, personally came and appeared Steven E. Watkins, who, being by me first duly sworn deposed and said that;


He is appearing as a witness on behalf of The Coalition of Small LEC's and Cooperatives before the Tennessee Regulatory Authority and if present before the Authority and duly sworn, his testimony would be as set forth in the annexed pre-filed testimony.

This 12TH day of November, 1997.



Steven E. Watkins

Sworn to and subscribed before me this 12TH day of November, 1997.



Notary Public, D.C.

My Commission Expires:

February 14, 2002

District of Columbia, ss:

BEFORE ME, the undersigned authority, a Notary Public, duly commissioned and qualified in the District of Columbia, personally came and appeared Steven E. Watkins, who, being by me first duly sworn deposed and said that;


He is appearing as a witness on behalf of The Coalition of Small LEC's and Cooperatives before the Tennessee Regulatory Authority and if present before the Authority and duly sworn, his testimony would be as set forth in the annexed pre-filed testimony.

This 12TH day of November, 1997.



Steven E. Watkins

Sworn to and subscribed before me this 12TH day of November, 1997.



Notary Public, D.C.

My Commission Expires:

February 14, 2002